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# Appendix

## Tax Expenditure Budget

The District of Columbia Code requires the Chief Financial Officer to prepare a Tax Expenditure Budget for Fiscal Year 2003 and biennially afterwards. This Appendix contains the Fiscal Year 2003 Tax Expenditure Budget.

## Background

Tax expenditures are revenue losses that arise from provisions of the District's tax laws intended to achieve public objectives by reducing the tax liabilities of particular groups of taxpayers, or even individual taxpayers. They are called expenditures because their public purposes also could possibly be achieved by D.C. Government outlays. Tax expenditures take the following forms:

- exclusions of particular kinds of income, property, sales, etc., from taxation;
- exemptions of particular classes of individuals or entities from taxation;
- deductions from income or property valuation;
- deferrals of taxation;
- credits against tax liabilities; and
- favorable tax rates.

Determining whether any particular exclusion, deduction, or credit constitutes a tax expenditure is a matter of judgment. There are several possible considerations such as:

- whether the particular provision is a departure from a "normal" tax structure;
- whether the provision reduces taxes for particular types of persons or entities; and

- whether there is a plausible public purpose for the provision.

In this tax expenditure budget, we rely on all of these considerations. Characterizing a provision as a tax expenditure does not indicate that the provision is undesirable. That is a matter for the policy makers.

## Findings

The provisions of D.C. tax law identified as tax expenditures for this budget are shown in Table 1. They are grouped into major categories according to the broad policy objectives of the tax expenditures, and then grouped by the type of tax (income, real property, sales, etc.). The tax expenditures with italicized descriptions are those that are explicitly provided for in the D.C. Code. Many of the income/franchise tax expenditures arise from federal income tax exclusions, deductions, etc. that are incorporated into D.C. law by general references to Federal law; these are identified by the use of plain type in their descriptions.<sup>1</sup> Table 2 contains the same information, except the items are grouped by type of tax. Table 3 ranks the tax expenditures for which estimates could be made by the FY 2003 estimate.

The tables identify 158 separate tax expenditure items. For fifteen of the items, separate estimates of the revenue losses could not be made. About half the listed tax expenditures are reductions in D.C. income/franchise tax revenue that result from federal preferences that "flow

<sup>1</sup> There are a few mixed cases. The D.C. child and dependent care credit and earned income credit—items 84 and 85—are explicitly provided for in the D.C. Code but are calculated as fixed percentages of the corresponding federal credits. The D.C. exclusion from taxation of interest on state and local bonds—listed under several objective categories—is explicitly provided for individuals only in the D.C. Code, whereas the federal exclusion applies to corporations as well.

through” to D.C. tax returns. Approximately 75 percent of the sum of all D.C. tax expenditures estimated arises from items that derive from explicit provisions of D.C. law. Some of these provisions are beyond the power of the Government of the District to change—taxation of the Federal Government and of foreign governments’ embassies and chanceries, for example; such provisions account for about 40 percent of the aggregate tax expenditures. Of the tax expenditures subject to D.C. Government action, about 60 percent arise from particular provisions of D.C. law (the District could affect the remainder by changing D.C. law to “decouple” from particular elements of federal law).

## Uses of the Estimates

Tax Expenditures potentially support many kinds of analysis. For example, this section illustrates a combined analysis of tax expenditure and budget outlays for two categories of policy objectives. By comparing budget expenditures and tax expenditures, for example, we get a more complete picture of public resources devoted to achieving these policy goals. The analyses in this section are not sufficiently refined to support any conclusions concerning tax policy or outlay programs. They are included here to illustrate the kinds of analysis that are possible.

### Housing

D.C. tax expenditure revenue losses associated with housing are much larger than locally-funded D.C. outlays for housing programs, and the tax expenditures are sharply focused on owner-occupied housing, rather than rental housing.

The D.C. budget for Fiscal Year 2003 includes about \$20 million of local funding and long-term financing for housing activities. The programs are focused on assisting low-income individuals to purchase housing (including condominium and cooperative apartments) and on encouraging developers to provide affordable rental housing for low-income individuals.

The tax expenditures related to housing aggregate to more than \$90 million (see warning below concerning the accuracy of sums of tax expenditures). The income tax revenue lost to

itemized deductions for mortgage interest and property taxes on owner-occupied dwellings (items 7 and 8) is about \$46 million. (D.C. residents may take these deductions against their D.C. income tax, even for houses located outside the District. Furthermore, deductible home mortgage interest includes interest on up to \$100,000 of debt secured by a home but used for other purposes than acquiring or improving the home. This unknown portion of the tax expenditure is not properly classified under the housing objective.) The District’s real property tax “homestead” exclusion for owner-occupied housing (item 12) accounts for about \$16.2 million of tax expenditure; exclusion of gain on sales of principal residences from income taxation (item 4) accounts for another \$14 million. The only tax expenditures which directly relate to rental housing in the District are accelerated depreciation on rental housing (item 5) for \$5 million and two provisions of the Housing Act of 2002 (items 14 and 15) for \$1 million each. The income tax exclusion of interest on private activity bonds to support rental housing (item 1) relates to interest received by D.C. residents regardless of the location of the rental housing supported.

### Education

In contrast to housing, D.C. locally-funded outlays for education are far larger than the tax expenditures associated with education. The tax expenditures are much more focused on post-secondary education than are the outlays.

For Fiscal Year 2003, the D.C. budget includes locally funded operating outlays and capital improvement outlays of \$1.163 billion for education. (This figure includes the budgets of the D.C. Public Schools, the D.C. Charter Schools, the University of the District of Columbia, and the D.C. State Education Office.) Roughly, 95 percent of the total outlays are related to primary and secondary education; the remainder of the outlays are for post-secondary instruction in the District and tuition assistance for District residents.

The District’s locally funded FY 2003 outlays for education will be supplemented by reduced taxes on D.C. residents and businesses of approx-

imately \$50 million arising from various education-related exclusions, exemptions, etc. The largest single item is the real property tax exemption for properties owned by educational entities: about \$37 million (item 27). The majority of this amount is for properties of colleges and universities in the District. The next largest tax expenditure under the education objective is about \$5 million for income-tax deductions of contributions made by D.C. residents to educational entities, whether in the District or outside the District. We do not have detailed data on the nature of the schools to which D.C. residents contribute. The remainder of the tax expenditures relate to post-secondary education.

## Policy Objectives

For this tax expenditure budget, the Office of the Chief Financial Officer has not conducted extensive research to determine the purposes of the tax expenditures. For many of them, the objective seems obvious; for others, the objective is less clear. In the latter cases, we have simply included the expenditures in an “other objectives” category.

The D.C. Government’s objectives in permitting federal tax expenditures to flow through to D.C. revenue require particular discussion. Some of the federal items relate to particular industries: oil and gas, agriculture, and timber, for example. For the Federal Government, the purpose of these provisions presumably is support of those industries. But, these particular industries are not present in the District. However, District residents may invest in shares of partnerships or of S-corporations that pass the special federal exclusions or deductions for those industries through to the D.C. investors. These exclusions and deductions then reduce D.C. revenue. What is the District’s purpose for permitting this reduction? A likely possibility is tax simplification for D.C. residents. That is, D.C. residents who take advantage of these benefits on their federal returns are not required to take the time or spend the money to remove them for their District returns, and D.C.’s Office of Tax and Revenue is not required to verify their removal.

Another group of federal tax expenditures

poses a similar puzzle: the exclusion of interest income on state and local “private activity” bonds that support particular purposes. Among the particular purposes is the construction of wharves and docks that are privately-owned but financed in part with public funds, of which there are, and are likely to be, none in D.C. Residents of the District that invest in such bonds issued by, for example, the State of Oregon are not required to report the interest income on their D.C. tax returns. As with the provisions discussed in the previous paragraph, the purpose of allowing this exclusion could be tax simplification. In this case, it might also be federalism. That is, the District may support Oregon’s sale of bonds to finance construction of wharves and docks in anticipation that Oregon, through incorporation of the federal private activity bond exclusions in the Oregon income tax, will support D.C. sale of bonds to finance, for example, rental housing. But in fact, Oregon does not exclude, from Oregon taxation, interest on D.C.’s bonds.

Another example, involving D.C. income tax provisions, will further illustrate the uncertainty of determining the policy objectives of tax expenditures. The objective category “income security and social services” includes numerous items that benefit low-income individuals or individuals in circumstances that indicate need for assistance. Some examples are: exclusion of public assistance income; exclusion of military disability pensions; itemized deduction for casualty losses; and additional exemptions for blind taxpayers. Two additional items are: the D.C. low-income credit and the exclusion from D.C. taxation of that part of Social Security income that is taxed by the Federal Government.

From the point of view of tax expenditures intended to change the after-tax income distribution, D.C.’s exclusion of federally-taxed social security income works in the opposite direction of the D.C. low-income credit.<sup>2</sup> The credit increases the after tax income of low-income individuals; the social security exclusion increases after tax income of high-income individuals. A possible explanation for this apparent anomaly is that D.C.’s social security income exclusion is not per se intended to increase the after-tax incomes

of high-income people, but is intended to discourage high-income retired individuals from moving out of the District and taking all of their income-social security and other-with them. However, this objective may be cast into doubt by the fact that private pension income, which is equally portable, is taxable in the District; federal and D.C. government pension income is taxable in the District to the extent it exceeds \$3000 per person.

A special case of tax preferences with obscure objectives is quite prominent in this tax expenditure budget: tax exemptions for the Federal Government and for embassies, chanceries, and the like, of foreign governments. For these tax preferences, it is clearly fruitless to consider possible motivations of the Government of the District of Columbia, since the preferences arise not from actions of that government but from the United States Constitution and federal law elaborated in decisions of the federal courts. It could be argued that, since these preferences do not result from deliberate choice of the District, they should not be considered to be tax expenditures. While that argument has merit, this tax expenditure budget nevertheless includes them to facilitate comparison of the magnitudes of these preferences and of other tax expenditures.

## The Estimates

Each estimate in the tables is based on the concept that tax revenue would increase by the estimated amount if the particular preference were repealed. We do not have estimates of the amount of revenue that would be gained by simultaneously repealing any combination of tax preferences. To do so would require considering possible interactions that would affect the total

revenue gain if a group of preferences were repealed together.

- For example, the FY 2003 tax expenditure estimate for the homestead exemption is \$16.2 million. This is an estimate of the real property tax revenue that would be gained by repeal of the homestead exemption, offset by the reduction in income tax revenue that would occur because of the increased credit for real property tax paid by low-income taxpayers.<sup>3</sup>
- Likewise, the tax expenditure estimate for the credit against the income tax for real property tax paid by low-income homeowners accounts for the fact that the homestead provision reduces the amount of that credit.

Since each of these provisions reduces the effect of repealing the other, a proper estimate of simultaneous repeal would be larger than the sum of the estimates of the two items in isolation.

In this tax expenditure budget, we have included, for each objective category in Table 1 and for each tax type in table 2, a line with the title "Memo: arithmetic sum." The figures in those lines are simply the totals for each year of the estimates. The technical title is intended to alert the reader that the figures are not reliable estimates of the revenue that would be gained by repeal of all the preferences classified in the category.

## Methods of Estimation—Federal "Flow Through" Items

The estimates included in this appendix for income/franchise tax expenditures that "flow through" from provisions of federal law are allocations of the U.S. Department of the Treasury's tax expenditure estimates for those provisions, published in the U.S. Tax Expenditure Budget

<sup>2</sup> The D.C. low-income credit reduces the D.C. tax liability to zero for taxpayers whose incomes are low enough that their federal liabilities are zero. Only low-income citizens receive the advantage of this credit. Federal law excludes a portion based on total income-of social security income from taxation. D.C. law also excludes that portion, *and* excludes the portion that is taxed at the federal level. The D.C. exclusion of federally taxed Social Security income applies to taxpayers with comparatively high income. For example, for Tax Year 2001, a married couple not covered by other pension plans with \$30,000 in social security income and \$20,000 in other types of income must report about five percent of their social security income for federal taxation; if their other income were \$56,000, 85 percent (the maximum) of their social security income would be subject to federal tax. More than half of taxable social security income on federal returns with D.C. addresses was on returns with adjusted gross income (AGI) in excess of \$75,000; more than twenty percent was on returns with AGI in excess of \$150,000.

<sup>3</sup> The effect of the repeal of the homestead exemption is also offset by the increase in the income tax itemized deduction for real property taxes.

(USTEB) for Fiscal Year 2003. For each tax expenditure that has a corporate income tax component in the USTEB, the estimated D.C. corporate franchise tax proportion is the ratio of D.C. corporate franchise taxable income to U.S. corporate taxable income, adjusted by the ratio of the maximum D.C. corporate tax rate to the maximum U.S. corporate tax rate (the resulting proportion is .000754). This across-the-board procedure was used in all but four cases: three involving preferences for agriculture (where the proportion was reduced by 90 percent) and one in which the Treasury item included both a credit which does not flow through and a deduction which does flow through (the proportion was reduced by 50 percent).

For the individual income tax components of the USTEB estimates, it is possible to use a slightly more refined procedure to calculate reasonable D.C. proportions. For many estimates, data from Internal Revenue Service tabulations of federal tax returns for the U.S. as a whole and for those with D.C. addresses provide useful allocation proportions. The D.C. proportions of wage and salary income, tax exempt interest income, charitable contributions deductions, and earned income credit are examples. Nineteen different ratios from this source are used. Several of them were used for more than one item. For items related to agriculture, timber, and coal mining, the ratios are judgmentally reduced. Census data for total population and veterans provide useful allocation ratios for several estimates. In every case, the proportions are adjusted to allow for the differences between federal individual income tax rates and D.C. individual income tax rates, or unincorporated business franchise tax rates, depending on the nature of the tax expenditure item. (This last adjustment was not made for the credit for child and dependent care expenses and for the earned income credit; in these cases, the allocation was adjusted by the D.C.-prescribed percentages of the federal credits: 32 percent and 25 percent, respectively.)

### **Methods of Estimation—D.C. only items**

For the estimates of income/franchise tax expenditures not related to federal law, tabulations of D.C. tax returns are used wherever pos-

sible. Adequate data were obtained from this source for the additional exemptions for age and blindness, the low income credit, the credit for property tax and rent, the police housing credit, and the economic development zone credit. D.C.'s \$3000 exclusion of federal and D.C. pension income is not identifiable on tax returns. Data from the U.S. Office of Personnel Management are used to estimate this item.

Tax expenditures for exemptions from D.C.'s real property tax are estimated using simple tabulations of D.C. property tax records.

For exemptions from D.C.'s general sales tax, the exempt sales entries on sales tax returns are aggregated and multiplied by the basic sales tax rate. However, no reasonable way could be found to divide the total into various categories of exemptions. Consequently, the total is shown in item 149 and the lines for particular exemptions are blank (except for the exemption for sale of groceries, item 96, which is not included in the figures for item 149).

### **Effectiveness of Tax Expenditures**

The D.C. Code requires an analysis of whether each tax expenditure is meeting its objective. This is a daunting task. This section discusses and illustrates various aspects of the task and the resources needed to accomplish it. In this discussion, we interpret the Code's requirement as meaning that each tax expenditure should be evaluated to determine whether the tax expenditure has significant favorable effects on the target measure (saving for retirement, home ownership, etc.) and whether it has had any other (including unfavorable) effects.

The Federal Government is also undertaking an evaluation of the effectiveness of federal tax expenditures. The text accompanying the Treasury Department's FY 2003 tax expenditure estimates contains a major section devoted to this effort. Treasury states that, "in practice, data availability is likely to be a major challenge and data constraints may limit the assessment of the effectiveness of many provisions", and that "such assessments can raise significant challenges in economic modeling." These cautions are particularly apt for the District, in view of the hundreds of staff years that Treasury devotes to extracting data from federal tax returns, to devel-

opment and maintenance of systems for analysis of that data, and to analysis itself.

To illustrate, consider two tax expenditure items that flow through from the federal individual income tax to D.C.'s individual income tax: employee contributions to Individual Retirement Accounts (IRAs) and self-employed individuals' contributions to Keogh plans. These provisions were intended to increase savings and thereby to increase retirees' financial resources. However, the provisions apply to contributions of funds that had been previously saved and to amounts that would have been saved without tax incentives. There is substantial scholarly literature concerning the effects of these provisions on saving, and no consensus conclusion has arisen as to how much, if any, new savings is generated.<sup>4</sup> Treasury describes the effort of the Office of Tax Analysis and IRS's Statistics of Income Division to collect data to support improved research on this question. This effort began with extraction of data from tax year 1999 tax returns and will continue at least until data for tax year 2009 have been gathered. The resulting data file will, it is hoped, allow analysts to observe savings behavior of individuals over time, which is not now possible. In the meantime, the effects on saving of these and related federal tax provisions cannot be confidently determined.

There are some tax expenditure for which the objective may simply be to increase the disposable income of individuals who are subject to the preference. For tax expenditures whose objectives can be properly described in this way, determining effectiveness is quite simple. They are fully effective.<sup>5</sup> They increase the after-tax income of all individuals who qualify, by the amounts determined under the particular rules of the provisions. However, in the case of the D.C. exclusion of federally taxed social security income, the earlier discussion proposed another possible objective: to discourage D.C. residents

with federally-taxed social security income from moving away from the District. If this is the objective of this provision, then determining its effectiveness will require significant research. It will be necessary to estimate how many such individuals would have moved away from the District but did not because the District exempted all their social security income from taxation. Such estimates would be difficult but might be feasible.

D.C. law provides income tax and real property tax credits over a five-year period to D.C. police officers who purchase their first homes in the District. These provisions became law in May of 2000 after several years of consideration, with retroactive effect to October 1, 1997. The objective of these credits might be of the type discussed above: to increase the after-tax income of D.C. police officers who buy their first homes in the District. But the actual motivation for these tax preferences is more complicated: to encourage D.C. police officers to move into the District or to make firm commitments to D.C. residency. Measuring the effectiveness of the credits against this objective requires determining how many police officers would have moved or made such commitments in the absence of the credits, compared to the number who actually did so in the presence of the credits - a difficult and likely subjective analytical exercise

Except for tax expenditures whose objectives can be defined by the rules of the provisions, estimating the effectiveness of tax expenditures requires a significant research program. For D.C. tax expenditures that arise from federal law, the U.S. Department of the Treasury is undertaking such a program. When the results of that work become available, it may be possible for the Office of the Chief Financial Officer to apply them to the related D.C. tax expenditures. The pace at which the effectiveness of D.C.-specific tax expenditures can be reliably estimated will depend on the amount of resources that can be devoted to the effort.

<sup>4</sup> The loss in tax revenue occurs because contributions are deductible from taxable income and because the earnings of the accounts or plans are not currently taxed. The contributions and the earnings are taxed upon withdrawal, but generally at lower rates applicable to retirees' income than the rates applicable at the time of the contributions. Withdrawals before age 59 ½ are subject to a 10-percent tax.

<sup>5</sup> Aside from compliance and administrative issues, which are beyond the scope of a tax expenditure budget.

## **Other Requirements**

The D.C. Code also requires that the tax expenditure analysis include several kinds of information: statutory authority for each item, effects of each tax expenditure on the distribution of tax burden; and effects of each tax expenditure on tax administration. Reports on these matters are in process.

Table 4-A1

# District of Columbia Tax Expenditure Estimates for Fiscal Years 2003-2006 by Objective Category and Type of Tax

Tax Expenditure*		Revenue Loss Estimates (dollars)			
		2003	2004	2005	2006
<b>Housing</b>					
<b>Income/Franchise Tax</b>					
<i>exclusion of interest on state and local "private activity" bonds issued to support:</i>					
1	<i>rental housing</i>	197,465	216,955	240,856	264,758
2	<i>owner-occupied housing mortgage subsidy</i>	947,062	1,050,208	1,153,353	1,260,910
3	<i>veterans' housing</i>	51,787	51,787	69,049	69,049
4	<i>exclusion of capital gains income on sale of principal residence</i>	14,237,210	14,658,845	15,101,561	15,558,333
5	<i>accelerated depreciation on rental housing</i>	5,387,200	5,461,890	5,469,428	5,390,629
6	<i>deferral of income from post 1987 installment sales</i>	760,762	775,171	788,913	803,323
7	<i>itemized deduction for mortgage interest on owner-occupied dwellings</i>	33,725,539	34,725,419	36,153,818	37,526,102
8	<i>itemized deduction for state and local property tax on owner-occupied dwellings</i>	12,029,167	11,840,414	10,371,203	8,315,327
9	<i>D.C. credit for rehabilitation of a dwelling in a Historic Preservation District</i>	1,250,000	1,250,000	1,250,000	1,250,000
10	<i>D.C. credit for certain low income homeowners for increase in real property tax</i>	1,400,000	1,400,000	1,400,000	1,400,000
11	<i>D.C. credits and deductions for employer-assisted home purchases</i>	2,240,000	2,240,000	2,240,000	2,240,000
<b>Real Property Tax</b>					
12	<i>homestead exemption</i>	16,186,151	16,186,151	16,186,151	16,186,151
13	<i>abatement and credits for rehabilitation of single family residential property located in an enterprise zone</i>	1,110,000	1,110,000	1,110,000	1,110,000
14	<i>50 percent abatement for properties whose owner engaged in a Housing Assistance Payment Contract</i>	1,000,000	1,000,000	1,000,000	1,000,000
15	<i>property tax abatements for new residential developments</i>	1,000,000	1,000,000	1,000,000	1,000,000
Memo: Arithmetic Sum (Housing)		91,522,343	92,966,838	93,634,333	93,374,584
<b>Education</b>					
<b>Income/Franchise Tax</b>					
<i>exclusion of interest on state and local "private activity" bonds issued to support:</i>					
16	<i>student-loans</i>	260,346	284,247	320,100	344,002
17	<i>private nonprofit educational facilities</i>	525,838	585,592	657,297	729,002
<i>exclusion of:</i>					
18	<i>interest on savings bonds redeemed to finance educational expenses</i>	35,810	35,810	35,810	35,810
19	<i>scholarship and fellowship income</i>	1,014,123	1,039,267	1,114,697	1,156,603
20	<i>employer-provided educational assistance</i>	419,059	444,203	469,346	494,490
<i>deferral for contributions to:</i>					
21	<i>state prepaid tuition plans</i>	608,768	716,198	823,628	948,962
22	<i>education Individual Retirement Accounts</i>	143,240	232,764	393,909	590,863
23	<i>deduction for student-loan interest</i>	1,191,753	1,228,996	1,266,238	1,303,480
24	<i>parental personal exemption for students age 19 or over</i>	725,765	758,165	797,046	829,446
25	<i>itemized deduction for charitable contributions to educational entities</i>	5,251,620	5,541,985	5,753,801	6,044,166
26	<i>D.C. 529 college saving program</i>	432,009	552,920	619,172	619,172
<b>Real Property Tax</b>					
27	<i>exemptions for property of educational institutions</i>	37,393,978	39,824,148	42,412,250	45,168,549



Table 4-A1(continued)

Tax Expenditure*		Revenue Loss Estimates (dollars)			
		2003	2004	2005	2006
<b>Deed Recordation and Transfer Taxes</b>					
28	<i>for property purchased by educational institutions</i>	361,702	361,702	361,702	361,702
	Memo: Arithmetic Sum (Education)	48,364,011	51,605,996	55,024,996	58,626,247
<b>Health and Healthcare</b>					
<b>Income/Franchise Tax</b>					
29	<i>exclusion of interest on state and local "private activity" bonds issued to support hospital construction</i>	1,045,700	1,173,507	1,312,934	1,452,361
30	exclusion of employer contributions for medical insurance premiums and medical care	110,445,980	118,991,468	128,382,603	138,029,658
31	deduction for medical insurance premiums of self-employed	1,624,556	2,396,556	2,597,948	2,799,339
32	deduction for contributions to medical Savings Accounts	22,254	22,254	22,254	22,254
33	itemized deduction for charitable contributions to health related entities	5,460,026	5,773,005	5,990,902	6,288,805
34	itemized deduction for medical expenses	12,295,264	12,984,511	13,962,796	14,674,276
<b>Insurance Premium Tax</b>					
35	<i>exemption for health insurance companies that provide subsidized open enrollment coverage</i>	3,566,745	4,565,652	5,844,313	7,481,077
<b>Real Property Tax</b>					
36	exemption for hospitals	11,177,820	11,827,729	12,515,427	13,243,108
	Memo: Arithmetic Sum (Health and Healthcare)	145,638,345	157,734,683	170,629,176	183,990,877
<b>Economic Development</b>					
<b>Income/Franchise Tax</b>					
<i>exclusion of interest on state and local "private activity" bonds issued to support:</i>					
37	<i>energy facilities</i>	110,684	130,173	142,124	154,075
38	<i>airport, dock, and similar facilities</i>	609,494	693,150	764,855	848,511
39	<i>small manufacturing facilities</i>	231,026	251,512	271,998	300,023
40	expensing of certain small investments	1,267,694	1,238,915	1,212,190	1,319,088
41	accelerated depreciation of buildings other than rental housing	3,564,051	3,350,921	3,236,471	3,569,491
42	accelerated depreciation of machinery and equipment	28,882,774	29,087,699	29,566,046	30,383,620
43	amortization of start-up costs	163,095	197,358	204,896	222,028
44	deduction of loss from sale of small business corporation stock	38,372	47,965	47,965	47,965
45	exception from passive loss rules for \$25,000 of rental real estate loss	3,904,351	3,626,154	3,386,329	3,156,097
46	excess bad debt reserves of financial institutions	22,615	15,077	7,538	0
47	incentives for businesses in empowerment zones, enterprise communities, and renewal communities	1,022,371	1,060,743	1,162,156	1,280,701
48	<i>D.C. economic development zone credits</i>	222,765	219,480	229,201	240,812
<b>Real Property Tax</b>					
49	<i>exemption for properties owned by D.C. Redevelopment Authority</i>	7,825,504	7,837,869	7,850,254	7,862,658
50	<i>deferral of tax for the Bureau of National Affairs</i>	942,074	1,041,284	1,150,941	1,272,147
51	<i>exemption for properties of the Washington Metropolitan Transportation authority</i>	3,341,324	3,389,899	3,439,180	3,489,177
52	<i>10-year exemption for certain supermarket properties</i>				
<b>Sales Tax (estimates included under other purposes)</b>					
53	<i>exclusion of energy products used in manufacturing</i>				

Table 4-A1(continued)

	Tax Expenditure*	Revenue Loss Estimates (dollars)			
		2003	2004	2005	2006
54	<i>exclusion of materials used in war memorials</i>				
55	<i>exclusion of materials used in supermarkets</i>				
	<b>Various Taxes</b>				
56	<i>incentives for qualified high technology companies</i>	3,000,000	2,300,000	1,600,000	900,000
57	<i>construction period deferrals for Mandarin Hotel development</i>	2,000,000	1,000,000		
58	<i>construction period exemptions for Gallery Place development</i>	3,000,000	3,000,000		
	Memo: Arithmetic Sum (Economic Development)	60,148,192	58,488,197	54,272,144	55,046,393

**Income Security and Social Services**

	<b>Income/Franchise Tax</b>				
	exclusion of:				
59	interest on life insurance savings	13,279,460	14,442,743	15,709,168	17,090,262
60	certain foster care payments	435,822	444,203	452,584	477,727
61	workers' compensation benefits	6,754,051	7,032,224	7,343,779	7,677,587
62	special benefits for disabled coal miners	50,287	50,287	50,287	41,906
63	public assistance benefits	335,247	343,629	360,391	377,153
64	railroad retirement system benefits	708,750	708,750	708,750	708,750
65	Social Security benefits for retired workers	32,212,675	32,885,987	33,399,831	34,941,362
66	Social Security benefits for disabled	5,740,873	6,431,904	7,122,935	7,920,278
67	Social Security benefits for dependents and survivors	7,193,810	7,654,497	8,079,747	8,540,434
68	veterans pensions	65,566	65,566	73,761	73,761
69	GI Bill education benefits	73,761	81,957	81,957	90,153
70	assistance for adopted foster children	209,530	217,911	226,292	234,673
71	military disability pensions	202,265	202,265	219,120	219,120
72	income of trusts to finance supplementary unemployment benefits	22,615	22,615	22,615	22,615
73	veterans death benefits and disability compensation	2,704,582	2,860,300	3,016,019	3,171,737
74	employer contributions for premiums on group term life insurance	2,002,849	2,036,230	2,069,610	2,102,991
75	employer contributions for premiums on accident and disability insurance	255,920	267,046	278,173	289,300
76	workers' compensation insurance premiums	5,652,484	5,819,388	6,019,673	6,197,704
77	employer provided child care	856,774	901,282	1,034,805	1,134,948
78	employer sponsored adoption assistance	184,386	377,153	419,059	452,584
79	employer contributions to Employer pension plans	59,061,783	60,641,808	61,899,152	65,626,676
80	contributions to Keogh plans	4,260,558	4,430,477	4,562,636	4,713,675
81	contributions to Individual Retirement Accounts	10,032,068	10,241,742	10,177,227	10,338,514
82	itemized deduction for casualty losses	369,364	428,939	488,514	536,174
83	<i>D.C. exclusion of up to \$3000 of federal and D.C. pension income</i>	8,713,230	8,713,230	8,713,230	8,713,230
84	<i>D.C. child and dependent care credit (32 percent of federal credit)**</i>	2,044,708	2,266,792	2,067,682	1,646,488
85	<i>D.C. earned income credit (25 percent of federal credit)**</i>	19,778,022	20,101,794	20,553,959	21,385,719
86	<i>D.C. disability income exclusion</i>	8,363	8,363	8,363	8,363
87	<i>D.C. exclusion of Social Security income included on Federal return</i>	8,555,727	8,801,632	9,054,605	9,314,849
88	<i>D.C. additional exemption for blind</i>	25,000	25,000	25,000	25,000
89	<i>D.C. additional exemption for elderly</i>	900,000	900,000	900,000	900,000
90	<i>D.C. low-income credit</i>	2,076,518	2,408,382	2,631,522	2,495,327
91	<i>D.C. credit for property tax</i>	3,666,676	3,666,676	3,666,676	3,666,676

Table 4-A1(continued)

Tax Expenditure*		Revenue Loss Estimates (dollars)			
		2003	2004	2005	2006
<b>Real Property Tax</b>					
92	<i>low income exemption</i>	6,694,298	6,694,298	6,694,298	6,694,298
93	<i>senior citizen exemption</i>	15,136,164	15,485,809	15,874,503	16,257,079
94	<i>25 percent limit on annual real property tax increase</i>	15,500,000	18,500,000	4,000,000	3,500,000
95	<i>exemption for properties of charitable organizations</i>	7,408,570	7,750,658	8,108,542	8,482,951
<b>Sales Tax</b>					
96	<i>exemption for sale of groceries</i>	26,657,424	27,990,324	29,389,805	30,859,324
	<i>exemption for sales (estimates included under other objectives)</i>				
97	<i>of medicines, drugs, medical devices</i>				
98	<i>by 501(c)(4) organizations</i>				
99	<i>of food at cost by non-profit organizations</i>				
100	<i>of food and beverages by senior centers to residents</i>				
101	<i>of food purchased with food stamps</i>				
<b>Deed Recordation and Transfer Taxes</b>					
102	<i>exemption of property purchased by a qualifying lower income household</i>	2,000,000	2,000,000	2,000,000	2,000,000
103	<i>exemption of property purchased by charitable entities</i>	191,489	191,489	191,489	191,489
	Memo: Arithmetic Sum (Income Security and Social Services)	272,021,669	284,093,352	277,695,761	289,120,971
<b>Cultural Enrichment</b>					
<b>Income/Franchise Tax</b>					
104	<i>exclusion of parsonage allowances</i>	311,196	326,755	350,095	365,655
105	<i>deduction for charitable contributions, other than education and health</i>	43,110,714	45,439,240	47,291,363	49,563,957
<b>Real Property Tax</b>					
106	<i>exemption for libraries</i>	255,374	274,825	295,757	318,284
107	<i>exemption for churches, synagogues, and mosques</i>	25,062,344	25,838,153	26,637,977	27,462,560
108	<i>exemption for cemeteries</i>	2,535,699	2,614,192	2,695,114	2,778,542
<b>Deed Recordation and Transfer Taxes</b>					
109	<i>exemption for property purchased by churches synagogues, and mosques</i>	74,468	74,468	74,468	74,468
	Memo: Arithmetic Sum	71,349,794	74,567,632	77,344,775	80,563,466
<b>Public Safety</b>					
<b>Income/Franchise Tax</b>					
110	<i>D.C. five-year police officer first-time homebuyer credit</i>	26,000	26,000	26,000	26,000
<b>Real Property Tax</b>					
111	<i>D.C. five-year police officer first-time homebuyer credit</i>	8,243	8,243	8,243	8,243
	Memo: Arithmetic Sum	34,243	34,243	34,243	34,243
<b>Environmental Protection</b>					
<b>Income/Franchise Tax</b>					
112	<i>exclusion of interest on state and local "private activity" bonds issued to support water, sewage, and hazardous waste facilities</i>	477,300	525,104	584,858	640,200
113	<i>exclusion of conservation subsidies provided by public utilities</i>	58,668	58,668	58,668	58,668
114	<i>expensing of environmental remediation costs</i>	79,493	15,077	-15,077	-7,538
115	<i>deduction for part of cost of clean-fuel burning vehicles</i>	23,005	23,005	19,236	7,798
<b>Real Property Tax</b>					
116	<i>condominium trash credit</i>	1,745,372	1,785,690	1,830,511	1,874,626
	Memo: Arithmetic Sum	2,383,839	2,407,544	2,478,196	2,573,754

Table 4-A1(continued)

Tax Expenditure*		Revenue Loss Estimates (dollars)			
		2003	2004	2005	2006
<b>Other Objectives</b>					
<b>Income/Franchise Tax</b>					
exclusion of:					
117	<i>interest on public purpose State and local bonds</i> [individual income tax only]	21,041,802	21,576,270	22,110,739	22,668,445
118	benefits, allowances, and certain pay to armed forces personnel	2,459,053	2,492,434	2,514,688	2,548,069
119	income earned abroad by U.S. citizens	2,363,529	2,390,185	2,452,383	2,496,811
120	certain allowances for Federal employees abroad	32,548,218	34,098,133	35,648,049	37,197,964
122	step-up basis of capital gains at death	39,767,570	41,360,489	43,008,814	44,740,248
123	employer paid meals and lodging (other than military)	867,901	901,282	945,790	990,297
124	extraterritorial income	3,882,266	4,153,648	4,440,106	4,741,642
125	cancellation of indebtedness	28,779	38,372	38,372	38,372
126	forgiven debt of solvent farmers	492	492	492	492
127	reimbursed employee parking expenses	2,436,799	2,559,196	2,692,719	2,837,369
128	employer-provided transit passes	400,570	456,204	522,966	600,855
129	inventory property sales source rules exception	1,160,911	1,221,218	1,281,525	1,349,370
130	credit union income	866,914	927,221	995,066	1,070,450
expensing of:					
131	research and experimentation expenditures	1,804,408	2,183,381	2,577,432	2,963,944
132	exploration and development costs, fuels	50,027	62,362	62,362	69,900
133	multi-period timber growing costs	194,215	201,754	202,233	209,772
134	exploration and development costs, nonfuel minerals	7,538	7,538	7,538	7,538
135	certain agricultural multi-period production costs	6,923	6,923	6,431	6,431
136	certain agricultural capital outlays	8,893	8,893	8,893	8,893
deferral of tax on:					
137	interest on U.S. savings bonds	259,817	276,579	276,579	293,341
138	income from controlled foreign corporations	5,616,094	5,955,321	6,332,240	6,731,774
139	capital construction funds of shipping companies	15,077	15,077	15,077	15,077
140	gain from sale of farm refiners	754	754	754	754
141	percentage depletion, fuels	195,311	207,646	215,184	222,722
142	percentage depletion, nonfuel minerals	200,794	213,129	220,668	220,668
143	itemized deduction for state and local taxes paid, other than real estate and income taxes	1,265,120	1,254,084	1,136,900	914,880
144	exception from passive loss rules for working interest in oil and gas wells	9,593	9,593	9,593	9,593
145	<i>D.C. exclusion of interest on U.S. obligations or securities</i>	4,000,000	4,000,000	4,000,000	4,000,000
<b>Real Property Tax</b>					
146	<i>exemption for embassies, chanceries, and associated properties of foreign governments</i>	23,526,195	25,093,910	26,766,093	28,549,706
147	<i>properties exempt by act of Congress; or multi-purpose exemptions</i>	29,098,074	32,909,950	37,221,186	42,097,199
148	<i>exemption for property of the Federal Government</i>	383,683,059	389,260,871	394,919,770	400,660,937
<b>Sales Tax</b>					
149	exemption of sales:	799,470,464	839,333,393	871,226,856	905,865,952
150	<i>to the Federal Government</i>				

Table 4-A1(continued)

Tax Expenditure*		Revenue Loss Estimates (dollars)			
		2003	2004	2005	2006
151	<i>to state and local governments</i>				
152	<i>to semi-public institutions</i>				
153	<i>to public utility companies</i>				
154	<i>other exemptions</i>				
155	<i>exemption of sales of professional and personal services</i>	226,073,567	220,618,383	229,790,874	239,953,643
<b>Deed Recordation and Transfer Taxes</b>					
<i>exemption of transfers:</i>					
156	<i>of properties purchased by foreign governments for embassies and related uses</i>	117,021	117,021	117,021	117,021
157	<i>of properties purchased by entities established by acts of Congress</i>	212,766	212,766	212,766	212,766
158	<i>of properties purchased by miscellaneous exempt entities</i>	42,553	42,553	42,553	42,553
Memo: Arithmetic Sum (Other Objectives)		1,583,683,066	1,634,167,026	1,692,020,713	1,754,455,448

\* Italicized items are tax expenditures that derive from explicit provisions of the D.C. Code. Other items derive from D.C.'s general adherence to federal concepts of income and deductions.

\*\* Figures include estimated outlays for refundable part of the credit.

Table 4-A2

# **District of Columbia Tax Expenditure Estimates for Fiscal Years 2003-2006 by Type of Tax and Objective Category**

Tax Expenditure*		Revenue Loss Estimates (dollars)			
		2003	2004	2005	2006
<b>Income/Franchise Tax</b>					
<b>Housing</b>					
1	<i>exclusion of interest on "private activity" bonds to support rental housing</i>	197,465	216,955	240,856	264,758
2	<i>exclusion of interest on "private activity" bonds to support owner-occupied housing mortgage subsidy</i>	947,062	1,050,208	1,153,353	1,260,910
3	<i>exclusion of interest on "private activity" bonds to support veterans' housing</i>	51,787	51,787	69,049	69,049
4	<i>exclusion of capital gains income on sale of principal residence</i>	14,237,210	14,658,845	15,101,561	15,558,333
5	<i>accelerated depreciation on rental housing</i>	5,387,200	5,461,890	5,469,428	5,390,629
6	<i>deferral of income from post 1987 installment sales</i>	760,762	775,171	788,913	803,323
7	<i>itemized deduction for mortgage interest on owner-occupied dwellings</i>	33,725,539	34,725,419	36,153,818	37,526,102
8	<i>itemized deduction for state and local property tax on owner-occupied dwellings</i>	12,029,167	11,840,414	10,371,203	8,315,327
9	<i>D.C. credit for rehabilitation of a dwelling in a Historic Preservation District</i>	1,250,000	1,250,000	1,250,000	1,250,000
10	<i>D.C. credit for certain low income homeowner for increase in real property tax</i>	1,400,000	1,400,000	1,400,000	1,400,000
11	<i>D.C. credits and deductions for employer-assisted home purchases</i>	2,240,000	2,240,000	2,240,000	2,240,000
<b>Education</b>					
16	<i>exclusion of interest on "private activity" bonds to support student-loans</i>	260,346	284,247	320,100	344,002
17	<i>exclusion of interest on "private activity" bonds to support private nonprofit educational facilities</i>	525,838	585,592	657,297	729,002
18	<i>exclusion of interest on savings bonds redeemed to finance educational expenses</i>	35,810	35,810	35,810	35,810
19	<i>exclusion of scholarship and fellowship income</i>	1,014,123	1,039,267	1,114,697	1,156,603
20	<i>exclusion of employer-provided educational assistance</i>	419,059	444,203	469,346	494,490
21	<i>deferral for state prepaid tuition plans</i>	608,768	716,198	823,628	948,962
22	<i>deferral for education Individual Retirement Accounts</i>	143,240	232,764	393,909	590,863
23	<i>deduction for student-loan interest</i>	1,191,753	1,228,996	1,266,238	1,303,480
24	<i>parental personal exemption for students age 19 or over</i>	725,765	758,165	797,046	829,446
25	<i>itemized deduction for charitable contributions to educational entities</i>	5,251,620	5,541,985	5,753,801	6,044,166
26	<i>D.C. 529 college saving program</i>	432,009	552,920	619,172	619,172
<b>Health and Healthcare</b>					
29	<i>exclusion of interest on state and local "private activity" bonds issued to support hospital construction</i>	1,045,700	1,173,507	1,312,934	1,452,361
30	<i>exclusion of employer contributions for medical insurance premiums and medical care</i>	110,445,980	118,991,468	128,382,603	138,029,658
31	<i>deduction for medical insurance premiums of self-employed</i>	1,624,556	2,396,556	2,597,948	2,799,339
32	<i>deduction for contributions to medical Savings Accounts</i>	22,254	22,254	22,254	22,254
33	<i>itemized deduction for charitable contributions to health related entities</i>	5,460,026	5,773,005	5,990,902	6,288,805
34	<i>itemized deduction for medical expenses</i>	12,295,264	12,984,511	13,962,796	14,674,276
<b>Economic Development</b>					
37	<i>exclusion of interest on "private activity" bonds to support energy facilities</i>	110,684	130,173	142,124	154,075
38	<i>exclusion of interest on "private activity" bonds to support airport, dock, and similar facilities</i>	609,494	693,150	764,855	848,511

Table 4-A2 (continued)

		Revenue Loss Estimates (dollars)			
	Tax Expenditure*	2003	2004	2005	2006
39	<i>exclusion of interest on "private activity" bonds to support small manufacturing facilities</i>	231,026	251,512	271,998	300,023
40	expensing of certain small investments	1,267,694	1,238,915	1,212,190	1,319,088
41	accelerated depreciation of buildings other than rental housing	3,564,051	3,350,921	3,236,471	3,569,491
42	accelerated depreciation of machinery and equipment	28,882,774	29,087,699	29,566,046	30,383,620
43	amortization of start-up costs	163,095	197,358	204,896	222,028
44	deduction of loss from sale of small business corporation stock	38,372	47,965	47,965	47,965
45	exception from passive loss rules for \$25,000 of rental real estate loss	3,904,351	3,626,154	3,386,329	3,156,097
46	excess bad debt reserves of financial institutions	22,615	15,077	7,538	0
47	incentives for businesses in empowerment zones, enterprise communities, and renewal communities	1,022,371	1,060,743	1,162,156	1,280,701
48	<i>D.C. economic development zone credits</i>	222,765	219,480	229,201	240,812
<b>Income Security and Social Services</b>					
59	exclusion of interest on life insurance savings	13,279,460	14,442,743	15,709,168	17,090,262
60	exclusion of certain foster care payments	435,822	444,203	452,584	477,727
61	exclusion of workers' compensation benefits	6,754,051	7,032,224	7,343,779	7,677,587
62	exclusion of special benefits for disabled coal miners	50,287	50,287	50,287	41,906
63	exclusion of public assistance benefits	335,247	343,629	360,391	377,153
64	exclusion of railroad retirement system benefits	708,750	708,750	708,750	708,750
65	exclusion of Social Security benefits for retired workers	32,212,675	32,885,987	33,399,831	34,941,362
66	exclusion of Social Security benefits for disabled	5,740,873	6,431,904	7,122,935	7,920,278
67	exclusion of Social Security benefits for dependents and survivors	7,193,810	7,654,497	8,079,747	8,540,434
68	exclusion of veterans pensions	65,566	65,566	73,761	73,761
69	exclusion of GI Bill education benefits	73,761	81,957	81,957	90,153
70	exclusion of assistance for adopted foster children	209,530	217,911	226,292	234,673
71	exclusion of military disability pensions	202,265	202,265	219,120	219,120
72	exclusion of income of trusts to finance supplementary unemployment benefits	22,615	22,615	22,615	22,615
73	exclusion of veterans death benefits and disability compensation	2,704,582	2,860,300	3,016,019	3,171,737
74	exclusion of employer contributions for premiums on group term life insurance	2,002,849	2,036,230	2,069,610	2,102,991
75	exclusion of employer contributions for premiums on accident and disability insurance	255,920	267,046	278,173	289,300
76	exclusion of workers' compensation insurance premiums	5,652,484	5,819,388	6,019,673	6,197,704
77	exclusion of employer provided child care	856,774	901,282	1,034,805	1,134,948
78	exclusion of employer sponsored adoption assistance	184,386	377,153	419,059	452,584
79	exclusion of employer contributions to Employer pension plans	59,061,783	60,641,808	61,899,152	65,626,676
80	exclusion of contributions to Keogh plans	4,260,558	4,430,477	4,562,636	4,713,675
81	exclusion of contributions to Individual Retirement Accounts	10,032,068	10,241,742	10,177,227	10,338,514
82	itemized deduction for casualty losses	369,364	428,939	488,514	536,174
83	<i>D.C. exclusion of up to \$3000 of federal and D.C. pension income</i>	8,713,230	8,713,230	8,713,230	8,713,230
84	<i>D.C. child and dependent care credit (32 percent of federal credit)**</i>	2,044,708	2,266,792	2,067,682	1,646,488
85	<i>D.C. earned income credit (25 percent of federal credit)**</i>	19,778,022	20,101,794	20,553,959	21,385,719
86	<i>D.C. disability income exclusion</i>	8,363	8,363	8,363	8,363
87	<i>D.C. exclusion of Social Security income included on Federal return</i>	8,555,727	8,801,632	9,054,605	9,314,849
88	<i>D.C. additional exemption for blind</i>	25,000	25,000	25,000	25,000

Table 4-A2(continued)

Tax Expenditure*	Revenue Loss Estimates (dollars)			
	2003	2004	2005	2006
89 <i>D.C. additional exemption for elderly</i>	900,000	900,000	900,000	900,000
90 <i>D.C. low-income credit</i>	2,076,518	2,408,382	2,631,522	2,495,327
91 <i>D.C. credit for property tax</i>	3,666,676	3,666,676	3,666,676	3,666,676
<b>Cultural Enrichment</b>				
104 exclusion of parsonage allowances	311,196	326,755	350,095	365,655
105 deduction for charitable contributions, other than education and health	43,110,714	45,439,240	47,291,363	49,563,957
<b>Public Safety</b>				
110 <i>D.C. five-year police officer first-time homebuyer credit</i>	26,000	26,000	26,000	26,000
<b>Environmental Protection</b>				
112 exclusion of interest on state and local "private activity" bonds issued to support water, sewage, and hazardous waste facilities	477,300	525,104	584,858	640,200
113 exclusion of conservation subsidies provided by public utilities	58,668	58,668	58,668	58,668
114 expensing of environmental remediation costs	79,493	15,077	-15,077	-7,538
115 deduction for part of cost of clean-fuel burning vehicles	23,005	23,005	19,236	7,798
<b>Other Objectives</b>				
117 exclusion of interest on public purpose State and local bonds	21,041,802	21,576,270	22,110,739	22,668,445
118 exclusion of benefits, allowances, and certain pay to armed forces personnel	2,459,053	2,492,434	2,514,688	2,548,069
119 exclusion of income earned abroad by U.S. citizens	2,363,529	2,390,185	2,452,383	2,496,811
120 exclusion of certain allowances for Federal employees abroad	32,548,218	34,098,133	35,648,049	37,197,964
122 step-up basis of capital gains at death	39,767,570	41,360,489	43,008,814	44,740,248
123 exclusion of employer paid meals and lodging (other than military)	867,901	901,282	945,790	990,297
124 exclusion of extraterritorial income	3,882,266	4,153,648	4,440,106	4,741,642
125 exclusion of cancellation of indebtedness income	28,779	38,372	38,372	38,372
126 exclusion of forgiven debt income of solvent farmers	492	492	492	492
127 exclusion of reimbursed employee parking expenses	2,436,799	2,559,196	2,692,719	2,837,369
128 exclusion of employer-provided transit passes	400,570	456,204	522,966	600,855
129 inventory property sales source rules exception	1,160,911	1,221,218	1,281,525	1,349,370
130 exclusion of credit union income	866,914	927,221	995,066	1,070,450
131 expensing of research and experimentation expenditures	1,804,408	2,183,381	2,577,432	2,963,944
132 expensing of exploration and development costs, fuels	50,027	62,362	62,362	69,900
133 expensing of multiperiod timber growing costs	194,215	201,754	202,233	209,772
134 expensing of exploration and development costs, nonfuel minerals	7,538	7,538	7,538	7,538
135 expensing of certain agricultural multiperiod production costs	6,923	6,923	6,431	6,431
136 expensing of certain agricultural capital outlays	8,893	8,893	8,893	8,893
137 deferral of tax on interest on U.S. savings bonds	259,817	276,579	276,579	293,341
138 deferral of tax on income from controlled foreign corporations	5,616,094	5,955,321	6,332,240	6,731,774
139 deferral of tax on capital construction funds of shipping companies	15,077	15,077	15,077	15,077
140 deferral of tax on gain from sale of farm refiners	754	754	754	754
141 percentage depletion, fuels	195,311	207,646	215,184	222,722
142 percentage depletion, nonfuel minerals	200,794	213,129	220,668	220,668
143 itemized deduction for state and local taxes paid, other than real estate and income taxes	1,265,120	1,254,084	1,136,900	914,880
144 exception from passive loss rules for working interest in oil and gas wells	9,593	9,593	9,593	9,593
145 <i>D.C. exclusion of interest on U.S. obligations or securities</i>	4,000,000	4,000,000	4,000,000	4,000,000
Memo: arithmetic sum (income/franchise tax)	617,747,061	644,824,082	670,466,292	700,709,678



Table 4-A2(continued)

Tax Expenditure*		Revenue Loss Estimates (dollars)			
		2003	2004	2005	2006
<b>Real Property Tax</b>					
<b>Housing</b>					
12	<i>homestead exemption</i>	16,186,151	16,186,151	16,186,151	16,186,151
13	<i>abatement and credits for rehabilitation of single family residential property located in an enterprise zone</i>	1,110,000	1,110,000	1,110,000	1,110,000
14	<i>50 percent abatement for properties whose owner engaged in a Housing Assistance Payment Contract</i>	1,000,000	1,000,000	1,000,000	1,000,000
15	<i>property tax abatements for new residential developments</i>	1,000,000	1,000,000	1,000,000	1,000,000
<b>Education</b>					
27	<i>exemptions for property of educational institutions</i>	37,393,978	39,824,148	42,412,250	45,168,549
<b>Health and Healthcare</b>					
36	<i>exemption for hospitals</i>	11,177,820	11,827,729	12,515,427	13,243,108
<b>Economic Development</b>					
49	<i>exemption for properties owned by D.C. Redevelopment Authority</i>	7,825,504	7,837,869	7,850,254	7,862,658
50	<i>deferral of tax for the Bureau of National Affairs</i>	942,074	1,041,284	1,150,941	1,272,147
51	<i>exemption for properties of the Washington Metropolitan Transportation authority</i>	3,341,324	3,389,899	3,439,180	3,489,177
52	<i>10-year exemption for certain supermarket properties</i>				
<b>Income Security and Social Services</b>					
92	<i>low income exemption</i>	6,694,298	6,694,298	6,694,298	6,694,298
93	<i>senior citizen exemption</i>	15,136,164	15,485,809	15,874,503	16,257,079
94	<i>25 percent limit on annual real property tax increase</i>	15,500,000	18,500,000	4,000,000	3,500,000
95	<i>exemption for properties of charitable organizations</i>	7,408,570	7,750,658	8,108,542	8,482,951
<b>Cultural Enrichment</b>					
106	<i>exemption for libraries</i>	255,374	274,825	295,757	318,284
107	<i>exemption for churches, synagogues, and mosques</i>	25,062,344	25,838,153	26,637,977	27,462,560
108	<i>exemption for cemeteries</i>	2,535,699	2,614,192	2,695,114	2,778,542
<b>Public Safety</b>					
111	<i>D.C. five-year police officer first-time homebuyer credit</i>	8,243	8,243	8,243	8,243
<b>Environmental Protection</b>					
116	<i>condominium trash credit</i>	1,745,372	1,785,690	1,830,511	1,874,626
<b>Other Objectives</b>					
146	<i>exemption for embassies, chanceries, and associated properties of foreign governments</i>	23,526,195	25,093,910	26,766,093	28,549,706
147	<i>properties exempt by act of Congress; or multi-purpose exemptions</i>	29,098,074	32,909,950	37,221,186	42,097,199
148	<i>exemption for property of the Federal Government</i>	383,683,059	389,260,871	394,919,770	400,660,937
	Memo: Arithmetic Sum (real property tax)	590,630,241	609,433,678	611,716,198	629,016,214
<b>Sales Tax</b>					
<b>Economic Development (estimates under Other Objectives)</b>					
53	<i>exclusion of energy products used in manufacturing</i>				
54	<i>exclusion of materials used in war memorials</i>				
55	<i>exclusion of materials used in supermarkets</i>				

Table 4-A2(continued)

Tax Expenditure*		Revenue Loss Estimates (dollars)			
		2003	2004	2005	2006
<b>Income Security and Social Services</b>					
96	<i>exemption for sale of groceries</i>	26,657,424	27,990,324	29,389,805	30,859,324
	<i>exemption for sales (estimates included under other objectives)</i>				
97	<i>of medicines, drugs, medical devices</i>				
98	<i>by 501(c)(4) organizations</i>				
99	<i>of food at cost by non-profit organizations</i>				
100	<i>of food and beverages by senior centers to residents</i>				
101	<i>of food purchased with food stamps</i>				
<b>Other Objectives</b>					
149	<i>exemption of sales to the Federal Government and other exemptions</i>	799,470,464	839,333,393	871,226,856	905,865,952
150	<i>exemption of sales to the Federal Government</i>				
151	<i>exemption of sales to state and local governments</i>				
152	<i>exemption of sales to semi-public institutions</i>				
153	<i>exemption of sales to public utility companies</i>				
154	<i>other exemptions</i>				
155	<i>exemption of sales of professional and personal services</i>	226,073,567	220,618,383	229,790,874	239,953,643
	Memo: arithmetic sum (sales tax)	1,052,201,455	1,087,942,100	1,130,407,536	1,176,678,920
<b>Various Taxes</b>					
<b>Economic Development</b>					
56	<i>incentives for qualified high technology companies</i>	3,000,000	2,300,000	1,600,000	900,000
57	<i>construction period deferrals for Mandarin Hotel development</i>	2,000,000	1,000,000		
58	<i>construction period exemptions for Gallery Place development</i>	3,000,000	3,000,000		
	Memo: arithmetic sum (various taxes)	8,000,000	6,300,000	1,600,000	900,000
<b>Insurance Premium Tax</b>					
<b>Health and Healthcare</b>					
35	<i>exemption for health insurance companies that provide subsidized open enrollment coverage</i>	3,566,745	4,565,652	5,844,313	7,481,077
<b>Deed Recordation and Transfer Taxes</b>					
<b>Health and Healthcare</b>					
28	<i>for property purchased by educational institutions</i>	361,702	361,702	361,702	361,702
<b>Income Security and Social Services</b>					
102	<i>exemption of property purchased by a qualifying lower income household</i>	2,000,000	2,000,000	2,000,000	2,000,000
103	<i>exemption of property purchased by charitable entities</i>	191,489	191,489	191,489	191,489
<b>Cultural Enrichment</b>					
109	<i>exemption for property purchased by churches synagogues, and mosques</i>	74,468	74,468	74,468	74,468
<b>Other Objectives</b>					
156	<i>exemption of transfers of properties purchased by foreign governments for embassies and related uses</i>	117,021	117,021	117,021	117,021
157	<i>exemption of transfers of properties purchased by entities established by acts of Congress</i>	212,766	212,766	212,766	212,766
158	<i>exemption of transfers of properties purchased by miscellaneous exempt entities</i>	42,553	42,553	42,553	42,553
	Memo: arithmetic sum (deed recordation and transfer taxes)	3,000,000	3,000,000	3,000,000	3,000,000

\* Italicized items are tax expenditures that derive from explicit provisions of the D.C. Code. Other items derive from D.C.'s general adherence to federal concepts of income and deductions.

\*\* Figures include estimated outlays for refundable part of the credit.

Table 4-A3

# **District of Columbia Tax Expenditure Estimates for Fiscal Year 2003 Ranked by Estimated Revenue Loss (dollars)**

	<b>Tax Expenditure*</b>	<b>Revenue Loss(\$)</b>	<b>Tax Type</b>
149	<i>exemption of sales to the Federal Government and other exemptions</i>	799,470,464	Sales
148	<i>exemption for property of the Federal Government</i>	383,683,059	Real Property
155	<i>exemption of sales of professional and personal services</i>	226,073,567	Sales
30	exclusion of employer contributions for medical insurance premiums and medical care	110,445,980	Income/Franchise
79	exclusion of employer contributions to Employer pension plans	59,061,783	Income/Franchise
105	deduction for charitable contributions, other than education and health	43,110,714	Income/Franchise
122	step-up basis of capital gains at death	39,767,570	Income/Franchise
27	<i>exemptions for property of educational institutions</i>	37,393,978	Real Property
7	itemized deduction for mortgage interest on owner-occupied dwellings	33,725,539	Income/Franchise
120	exclusion of certain allowances for Federal employees abroad	32,548,218	Income/Franchise
65	exclusion of Social Security benefits for retired workers	32,212,675	Income/Franchise
147	<i>properties exempt by act of Congress; or multi-purpose exemptions</i>	29,098,074	Real Property
42	accelerated depreciation of machinery and equipment	28,882,774	Income/Franchise
96	<i>exemption for sale of groceries</i>	26,657,424	Sales
107	<i>exemption for churches, synagogues, and mosques</i>	25,062,344	Real Property
146	<i>exemption for embassies, chanceries, and associated properties of foreign governments</i>	23,526,195	Real Property
117	<i>exclusion of interest on public purpose State and local bonds</i>	21,041,802	Income/Franchise
85	<i>D.C. earned income credit (25 percent of federal credit)**</i>	19,778,022	Income/Franchise
12	<i>homestead exemption</i>	17,104,320	Real Property
94	<i>25 percent limit on annual real property tax increase</i>	15,500,000	Real Property
93	<i>senior citizen exemption</i>	15,136,164	Real Property
4	exclusion of capital gains income on sale of principal residence	14,237,210	Income/Franchise
59	exclusion of interest on life insurance savings	13,279,460	Income/Franchise
34	itemized deduction for medical expenses	12,295,264	Income/Franchise
8	itemized deduction for state and local property tax on owner-occupied dwellings	12,029,167	Income/Franchise
36	<i>exemption for hospitals</i>	11,177,820	Real Property
81	exclusion of contributions to Individual Retirement Accounts	10,032,068	Income/Franchise
83	<i>D.C. exclusion of up to \$3000 of federal and D.C. pension income</i>	8,713,230	Income/Franchise
87	<i>D.C. exclusion of Social Security income included on Federal return</i>	8,555,727	Income/Franchise
49	<i>exemption for properties owned by D.C., Redevelopment Authority</i>	7,825,504	Real Property
95	<i>exemption for properties of charitable organizations</i>	7,408,570	Real Property
67	exclusion of Social Security benefits for dependents and survivors	7,193,810	Income/Franchise
61	exclusion of workers' compensation benefits	6,754,051	Income/Franchise
92	<i>low income exemption</i>	6,694,298	Real Property
66	exclusion of Social Security benefits for disabled	5,740,873	Income/Franchise
76	exclusion of workers' compensation insurance premiums	5,652,484	Income/Franchise
138	deferral of tax on income from controlled foreign corporations	5,616,094	Income/Franchise
33	itemized deduction for charitable contributions to health related entities	5,460,026	Income/Franchise
5	accelerated depreciation on rental housing	5,387,200	Income/Franchise
25	itemized deduction for charitable contributions to educational entities	5,251,620	Income/Franchise
80	exclusion of contributions to Keogh plans	4,260,558	Income/Franchise
145	<i>D.C. exclusion of interest on U.S. obligations or securities</i>	4,000,000	Income/Franchise
45	exception from passive loss rules for \$25,000 of rental real estate loss	3,904,351	Income/Franchise
124	exclusion of extraterritorial income	3,882,266	Income/Franchise

Table 4-A3(continued)

91	<i>D.C. credit for property tax</i>	3,666,676	Income/Franchise
35	<i>exemption for health insurance companies that provide subsidized open enrollment coverage</i>	3,566,745	Insurance Premium
41	accelerated depreciation of buildings other than rental housing	3,564,051	Income/Franchise
51	<i>exemption for properties of the Washington Metropolitan Transportation authority</i>	3,341,324	Real Property
56	<i>incentives for qualified high technology companies</i>	3,000,000	Various
58	<i>construction period exemptions for Gallery Place development</i>	3,000,000	Various
73	exclusion of veterans death benefits and disability compensation	2,704,582	Income/Franchise
108	<i>exemption for cemeteries</i>	2,535,699	Real Property
118	exclusion of benefits, allowances, and certain pay to armed forces personnel	2,459,053	Income/Franchise
127	exclusion of reimbursed employee parking expenses	2,436,799	Income/Franchise
119	exclusion of income earned abroad by U.S. citizens	2,363,529	Income/Franchise
11	<i>D.C. credits and deductions for employer-assisted home purchases</i>	2,240,000	Income/Franchise
90	<i>D.C. low-income credit</i>	2,076,518	Income/Franchise
84	<i>D.C. child and dependent care credit (32 percent of federal credit)**</i>	2,044,708	Income/Franchise
74	exclusion of employer contributions for premiums on group term life insurance	2,002,849	Income/Franchise
57	<i>construction period deferral s for Mandarin Hotel development</i>	2,000,000	Various
102	<i>exemption of property purchased by a qualifying lower income household</i>	2,000,000	Recordation and Transfer
131	expensing of research and experimentation expenditures	1,804,408	Income/Franchise
116	<i>condominium trash credit</i>	1,745,372	Real Property
31	deduction for medical insurance premiums of self-employed	1,624,556	Income/Franchise
10	<i>D.C. credit for certain low income homeowner for increase in real property tax</i>	1,400,000	Income/Franchise
40	expensing of certain small investments	1,267,694	Income/Franchise
143	itemized deduction for state and local taxes paid, other than real estate and income taxes	1,265,120	Income/Franchise
9	<i>D.C. credit for rehabilitation of a dwelling in a Historic Preservation District</i>	1,250,000	Income/Franchise
23	deduction for student-loan interest	1,191,753	Income/Franchise
129	inventory property sales source rules exception	1,160,911	Income/Franchise
13	<i>abatement and credits for rehabilitation of single family residential property located in an enterprise zone</i>	1,110,000	Real Property
29	<i>exclusion of interest on state and local "private activity" bonds issued to support hospital construction</i>	1,045,700	Income/Franchise
47	incentives for businesses in empowerment zones, enterprise communities, and renewal communities	1,022,371	Income/Franchise
19	exclusion of scholarship and fellowship income	1,014,123	Income/Franchise
14	<i>50 percent abatement for properties whose owner engaged in a Housing Assistance Payment Contract</i>	1,000,000	Real Property
15	<i>property tax abatements for new residential developments</i>	1,000,000	Real Property
2	<i>exclusion of interest on "private activity" bonds to support owner-occupied housing mortgage subsidy</i>	947,062	Income/Franchise
50	<i>deferral of tax for the Bureau of National Affairs</i>	942,074	Real Property
89	<i>D.C. additional exemption for elderly</i>	900,000	Income/Franchise
123	exclusion of employer paid meals and lodging (other than military)	867,901	Income/Franchise
130	exclusion of credit union income	866,914	Income/Franchise
77	exclusion of employer provided child care	856,774	Income/Franchise
6	deferral of income from post 1987 installment sales	760,762	Income/Franchise
24	parental personal exemption for students age 19 or over	725,765	Income/Franchise
64	exclusion of railroad retirement system benefits	708,750	Income/Franchise
38	<i>exclusion of interest on "private activity" bonds to support airport, dock, and similar facilities</i>	609,494	Income/Franchise
21	deferral for state prepaid tuition plans	608,768	Income/Franchise
17	<i>exclusion of interest on "private activity" bonds to support</i>	525,838	Income/Franchise
82	itemized deduction for casualty losses	369,364	Income/Franchise
28	<i>for property purchased by educational institutions</i>	361,702	Recordation and Transfer

Table 4-A3(continued)

63	exclusion of public assistance benefits	335,247	Income/Franchise
104	exclusion of parsonage allowances	311,196	Income/Franchise
16	<i>exclusion of interest on "private activity" bonds to support student-loans</i>	260,346	Income/Franchise
137	deferral of tax on interest on U.S. savings bonds	259,817	Income/Franchise
75	exclusion of employer contributions for premiums on accident and disability insurance	255,920	Income/Franchise
106	<i>exemption for libraries</i>	255,374	Real Property
39	<i>exclusion of interest on "private activity" bonds to support small manufacturing facilities</i>	231,026	Income/Franchise
48	<i>D.C. economic development zone credits</i>	222,765	Income/Franchise
157	<i>exemption of transfers of properties purchased by entities established by acts of Congress</i>	212,766	Recordation and Transfer
70	exclusion of assistance for adopted foster children	209,530	Income/Franchise
71	exclusion of military disability pensions	202,265	Income/Franchise
142	percentage depletion, nonfuel minerals	200,794	Income/Franchise
1	<i>exclusion of interest on "private activity" bonds to support rental housing</i>	197,465	Income/Franchise
141	percentage depletion, fuels	195,311	Income/Franchise
133	expensing of multiperiod timber growing costs	194,215	Income/Franchise
103	exemption of property purchased by charitable entities	191,489	Recordation and Transfer
78	exclusion of employer sponsored adoption assistance	184,386	Income/Franchise
43	amortization of start-up costs	163,095	Income/Franchise
22	deferral for education Individual Retirement Accounts	143,240	Income/Franchise
156	<i>exemption of transfers of properties purchased by foreign governments for embassies and related uses</i>	117,021	Recordation and Transfer
37	<i>exclusion of interest on "private activity" bonds to support energy facilities</i>	110,684	Income/Franchise
114	expensing of environmental remediation costs	79,493	Income/Franchise
109	<i>exemption for property purchased by churches synagogues, and mosques</i>	74,468	Recordation and Transfer
69	exclusion of GI Bill education benefits	73,761	Income/Franchise
68	exclusion of veterans pensions	65,566	Income/Franchise
113	exclusion of conservation subsidies provided by public utilities	58,668	Income/Franchise
3	<i>exclusion of interest on "private activity" bonds to support veterans' housing</i>	51,787	Income/Franchise
62	exclusion of special benefits for disabled coal miners	50,287	Income/Franchise
132	expensing of exploration and development costs, fuels	50,027	Income/Franchise
158	<i>exemption of transfers of properties purchased by miscellaneous exempt entities</i>	42,553	Recordation and Transfer
44	deduction of loss from sale of small business corporation stock	38,372	Income/Franchise
18	exclusion of interest on savings bonds redeemed to finance educational expenses	35,810	Income/Franchise
25	exclusion of cancellation of indebtedness income	28,779	Income/Franchise
110	<i>D.C. five-year police officer first-time homebuyer credit</i>	26,000	Income/Franchise
88	<i>D.C. additional exemption for blind</i>	25,000	Income/Franchise
115	deduction for part of cost of clean-fuel burning vehicles	23,005	Income/Franchise
46	excess bad debt reserves of financial institutions	22,615	Income/Franchise
72	exclusion of income of trusts to finance supplementary unemployment benefits	22,615	Income/Franchise
32	deduction for contributions to medical Savings Accounts	22,254	Income/Franchise
139	deferral of tax on capital construction funds of shipping companies	15,077	Income/Franchise
144	exception from passive loss rules for working interest in oil and gas wells	9,593	Income/Franchise
136	expensing of certain agricultural capital outlays	8,893	Income/Franchise
86	<i>D.C. disability income exclusion</i>	8,363	Income/Franchise
111	<i>D.C. five-year police officer first-time homebuyer credit</i>	8,243	Real Property
134	expensing of exploration and development costs, nonfuel minerals	7,538	Income/Franchise
135	expensing of certain agricultural multiperiod production costs	6,923	Income/Franchise
140	deferral of tax from gain on sale of farm refiners	754	Income/Franchise
126	exclusion of forgiven debt income of solvent farmers	492	Income/Franchise

\* Italicized items are tax expenditures that derive from explicit provisions of the D.C. Code. Other items derive from D.C.'s general adherence to federal concepts of income and deductions.

\*\* Figures include estimated outlays for refundable part of the credit.